2016 Top Markets Report Media and Entertainment
Country Case Study

The Trans-Pacific Partnership (TPP) Snapshot:

Opportunities for the U.S. Media and Entertainment Industry from the 2016 TPP

Introduction

Excluding the United States and Brunei, there are 10 TPP partner countries that hold the potential for $308 billion in M&E revenues in 2016. The countries highlighted in this snapshot provide a broad slice of the media and entertainment markets in the Asia-Pacific region and represent both emerging and developed economies. In North America, explosive growth in the over-the-top (OTT) sector will set an important trend in Canada, Mexico and other South American countries, with opportunities for U.S. companies to capitalize on a growing tablet and smartphone market in the region. Australia, while a saturated market for streaming video and music, has ushered in U.S. streaming giant Netflix to compete with local competitors. Opportunities across the TPP countries for M&E companies abound as policymakers focus on creating an equitable, fair and accessible digital economy that protects intellectual property.

Business, Policy and Intellectual Property Impact

U.S. copyright holders and all M&E sectors in the Trans-Pacific Partnership countries will benefit from a more robust system of anti-piracy and effective intellectual property rights protections. Strong and effective IP protection and enforcement stand to greatly benefit U.S. copyright holders who license and trade in digital services and export physical M&E, such as books, music, movies, TV programs and video games. Increased protections will benefit U.S. companies by protecting their content to counter piracy from foreign firms or individuals. Likewise, increased access to smartphones and internet broadband will benefit the media and entertainment sectors by permitting customers to download content legally and consume it on their devices.
The TPP agreement greatly benefits U.S. M&E companies markets with robust growth rates, stronger anti-piracy protections, and unique opportunities for partnerships in licensing content.

Strong copyright protections in TPP markets for U.S. artists, creators, producers and businesses representing creative works help increase the distribution of legitimate works, which in turn increase payments and royalties that are paid to legitimate businesses. Having strong IP and copyright protections helps the industry distribute and monetize content across all TPP countries. In addition, the TPP copyright provisions reflect the strong copyright protections and enforcement available in the United States as well as promoting balance in copyright systems through exceptions and limitations for legitimate purposes, such as news reporting, teaching, scholarship, research, criticism and comment.

Other results of the TPP agreement are more effective enforcement of intellectual property rights, which include civil and administrative procedures and remedies, as well as criminal enforcement, for U.S. businesses to enjoy better redress than ever before in order to ensure that the economic value of the M&E product or service will be protected. With these guarantees, artists and businesses are then better positioned to invest more in overseas markets than ever before, knowing there are redress mechanisms in place to capture legitimate earnings and protect their content or products.

An important facet of the TPP agreement is the prohibition of customs duties on digital products so that M&E businesses that distribute products electronically are not disadvantaged. A companion provision ensures that imports of digital products (music, movies, videos, games, e-books and related entertainment software) are not subject to discriminatory taxation, outright blocking or other forms of content discrimination.
The TPP ensures U.S. creative content is not subjected to forced tech-transfers. U.S. M&E firms are protected from handing over proprietary or source code to competitors or state-owned enterprises, and under this agreement, U.S. companies will not be required to substitute local technology into U.S. branded services in order to gain market access.

Importantly, the TPP promotes global interoperability, so U.S. companies are less likely to have to produce special hardware for each country in order to operate there. It promotes reasonable network access and competitive supply of telecommunications services, which enable communications and the distribution of M&E content and services.

The TPP ensures a competitive digital marketplace so that small businesses, individuals and others can access and move data freely, with commensurate privacy protections; this in turn protects an open Internet and digital and online cross-border trade. This is essential for M&E industries in order to share, create and distribute content globally, which drives their industry and contributes greatly to the digital economy. Also, adopting consumer protection laws for the online environment, enabling trade, hindering unsolicited commercial email and increasing copyright awareness is fundamental to enhancing growth in the digital space for M&E companies. Similarly, so is reducing services trade barriers, including allowing fund transfers for cross-borders services and improving supply chains to aid and facilitate trade in M&E business and services.

FILM	TV	MUSIC	VIDEO GAMES	PUB - LISHING
Australia	Australia	Australia	Australia	Australia
Canada	Chile	*Canada	Canada	New Zealand
Chile	Japan	*Japan	Chile	Vietnam
Japan	Mexico	Malaysia	Japan	
Mexico	New Zealand	*Mexico	Malaysia	
Peru	Peru	New Zealand	New Zealand	
Vietnam	Vietnam	*Singapore	Peru	
Note: Countries are listed in alphabetic order and are not ranked here. * = Live Music.		*Vietnam	Singapore	
			Vietnam	

Creative industries led by Hollywood account for more than $500 billion and at least 3.2 percent of U.S. goods and services, according to a 2013 report by the U.S. Bureau of Economic Analysis and the National Endowment for the Arts, a first-ever estimate of the creative sector's contributions to U.S. gross domestic product (based on 2011 data, the most recent figures available). Consulting firm PricewaterhouseCoopers (PwC) values the U.S. M&E sectors at $665 billion in 2016. Almost 40 million American jobs are attributable to IP-intensive industries.

Industry Trends

A few trends emerge across the TPP countries (with the exception of Brunei for which there is no comparable data) using revenue growth trends from *the PwC Annual Entertainment and Media Outlook* for 2016 across five media and entertainment subsectors: film, television, music, video games and book publishing.

For starters, **video games** (especially digital) are growing exponentially across the globe, and there is no exception in the TPP countries. Every country is seeing major growth in this sector. **Box office** receipts will grow in many markets, although domestic film production may be subject to domestic regulations and be better suited for co-productions and utilizing country subsidies for cultural industries. Digital content and over-the-top streaming are making major inroads across TPP markets as **traditional TV**, broadcast and home **video** have evolved to **digital streaming** and subscription services. **Music** is growing slowly on a global scale, although there is a surge in live music and events in the countries indicated below across TPP markets. **Book publishing** is stagnating or witnessing slower growth (with some exceptions across sectors), although there is still growth in the physical book markets for the three countries listed above, while digital is growing, but e-books have not become a phenomenon as predicted earlier. Digital licensing is also growing in certain sectors.

Filmed Entertainment

The film and TV industry is undergoing fundamental changes that closely follow the global trends in media and entertainment. The most important change in the market structure is the decline of the physical video and television market as the principal medium for consuming content.[i] This change has been fueled by an increase in content libraries and choice, rising affordability, and populations with more free time to dedicate to entertainment.[ii] Box office receipts will grow in many markets, although domestic film production may be subject to domestic regulations and be better suited for co-productions and utilizing country subsidies for cultural industries.

> "The TPP endeavors to secure fair, equitable and non-discriminatory market access opportunities for U.S. businesses that rely on intellectual property, such as media and entertainment sectors."

Digital content and over-the-top streaming are making major inroads across TPP markets, as traditional TV, broadcast and home video have evolved to digital streaming and subscription services. The electronic home video revenue is quickly overtaking the physical filmed entertainment market with Japan leading the way. In 2015, Japan's electronic home video market is forecasted at $632 million and expands to $1.1 billion by 2019, growing at a 15.6 percent CAGR.iii

Over-the-top (OTT) delivery services will be the principal mechanism for delivering filmed entertainment content to millions of users across a multitude of smart devices and tablet platforms. Mexico and Canada offer U.S. companies opportunities closer to home. In Canada, over-the-top streaming will grow at a 17.4 percent compounded annual growth, and the market will increase from $368 million to $675 million, nearly doubling in size.[iv] Mexico will experience explosive growth in the OTT sector at 91.4 percent CAGR from 2015 to 2019 from a nascent market size of $7 million in 2015 to $89 million in 2019. v

The proximity to the U.S. makes Canada and Mexico attractive trading destinations, already under the scope of NAFTA and, with the Trans-Pacific Partnership, enjoys and an even greater harmonization of standards for labor, goods and services that should increase the ease of doing business for U.S. companies. The TPP will allow for U.S. companies to have greater access to partnerships with companies in these markets and improved IP and copyright protections and enforcement.

Australia is an important market for U.S. companies like Netflix, which launched there in 2014. Streaming services from local companies, including Presto and Quickflix, which offer over-the-top content to users across many devices, were already in the market, but the arrival of a U.S. provider created healthy competition.[vi] The proliferation of tablets in the Australian consumer base has fueled the increase in demand for subscription video-on-demand (SVOD) services. [vii] Competition will continue to be tough in Australia for SVOD companies, as there are only approximately 5 million households able to physically access streaming services, making the market sustainable for two SVOD companies, most likely Netflix and Presto.[viii] However, the industry is changing at a rapid pace and could go in different directions. U.S. businesses are advised to stay abreast of industry developments for one-off, advisory or investment opportunities in a sector where there is a clear advantage.

Music

Digital music streaming is trending across TPP markets as it is across the rest of the world, as consumers seek more options and services that are available anywhere at any time. The music industry is expanding rather slowly on a global scale, although there is a surge in live music and events across many TPP markets. The United States, Mexico, Japan and other markets have major festivals that are spurring the live music sector.

Australia and New Zealand's digitally streamed music market will grow at a strong rate (Australia at 25 percent CAGR through 2019 to reach $115 million and New Zealand at 21.7% CAGR to reach $7 million by 2019).[ix]

U.S. companies have an advantage in the both the Australian and New Zealand markets as English speaking countries. U.S. and Australian artists are hugely popular in each other's countries, while New Zealand is slightly less well known, as it is a smaller market. The dance-music sector is a great example of how Australia and the United States both export music to each other with Australian DJs like Alison Wonderland, Thomas Jack and Will Sparks landing gigs at such prominent U.S. festivals such as Ultra Music Festival in Miami, Florida.[x] Likewise, American DJs are very popular in Australia and New Zealand with many fans logging in and streaming their favorite artists over the internet, which is the most important platform for reaching a new generation of music aficionados on such a geographically distant continent.

Closer to home, Canada's digitally streaming music market is also notable for its tremendous growth (19.0 percent CAGR, $59 million by 2019), and the TPP will afford both economies the ability to capture unrealized benefits in the digital music area as standardization of over-the-top delivered media services expand. Netflix also paved the way for these and related services in Canada, launching in September of 2010, and has continued to grow at a strong clip, accounting for at least 10 percent of Canadian users.[xi] New bundled music services such as Spotify, which launched in 2014, give Canadians a broad range of digitally streaming services to consume and present opportunities for U.S. music services to enter a receptive market.[xii]

Video Games

Video games (especially digital) are growing exponentially across the globe, and there is no exception in the TPP countries. Every country is seeing major growth in this sector. The video games market is also part of the continuing trend of transitioning to digital downloading platforms in the TPP countries, with the Asian partner countries leading the way in growth: Japan (17.1 percent CAGR, $707 million market by 2019), Malaysia (19.8 percent CAGR, $38 million by 2019), Singapore (18.2 percent CAGR, $28 million by 2019), and Vietnam (24.1 percent CAGR, $14 million by 2019). These figures demonstrate the tremendous potential for U.S. companies to partner or license with in-country companies, even in the smaller Singaporean and Vietnamese markets.[xiii]

An important aspect of the TPP related to the video games sector is the increased protection of copyright. The TPP will support a just and equal rules system to protect against counterfeiting and trademark infringement in the sector and promote non-discriminatory and fair access for U.S. companies in partner markets.[xiv] The reality is that many of the strong growth countries for video games and other media and entertainment sectors are simultaneously considered high risk piracy and counterfeiting countries. For example, Mexico and Vietnam are respectively listed as the "Recommended Watch" and "Recommended Priority Watch" countries in a recommendation from the International Intellectual Property Alliance's (IIAP) to the United States Trade Representative (USTR) published this year.[xv] The TPP should hopefully create a more level playing field for U.S. companies that want to access the video games markets in some of these markets.

Publishing

The TPP countries trend towards the general global growth patterns for the publishing sector. This means that the majority of growth will be driven by electronic consumer book publishing in countries with a high penetration of tablet ownership.[xvi] Publishing is stagnating or witnessing slower growth, although there is still growth in the physical book markets for the three countries listed above, while digital is growing but e-books have not become the phenomenon predicted earlier.

Digital licensing is also growing in TPP countries, such as Australia (CAGR 15 percent, $364 million by 2019), Chile (CAGR 41.9 percent, $9 million by 2019), Malaysia (CAGR 35.9 percent, $6 million by2019), Mexico (CAGR 37.6 percent $91 million by 2019), New Zealand (CAGR 18.7 percent, $60 million by 2019), Peru (CAGR 40.5 percent, $3 million by 2019), Singapore (CAGR 43.6 percent, $83 million by 2019), and Vietnam (CAGR 39.3 percent, $4 million by 2019), showing impressive growth rates over the period of 2015 to 2019.[xvii] The correlation between high electronic consumer book rates and countries with higher levels of tablet penetration will continue to be the principal growth driving factor. Government support for publishing companies and bookstores is a secondary source of growth in some countries like Mexico that utilize minimum pricing floors for new books and major support in educational book spending.

A potential region for U.S. publishing companies to focus their resources on is the TPP countries in Latin America. Chile, Mexico and Peru are small markets but geographically closer to home than the Asia-Pacific countries. Chile has a very high tablet penetration rate which will help increase the readership of e-books to 23 percent of the total market, which is expected to be valued at $9 million by 2019.[xviii] Similarly, the Mexican market in e-consumer book readership is poised to expand to $91 million by 2019 due to increased tablets and smartphone usage with the total consumer book market reaching $557 million by 2019.[xix] Already established channels of trade, including NAFTA and the TPP, make it easier for U.S. publishing companies to partner with publishing companies in country. In Peru, tablet penetration is only at 5 percent of the population but is set to grow to 19 percent by 2019, which will permit the populace more access to books online. Overall, these countries are set to increase their electronic consumer book growth via deeper and more ubiquitous access to mobile devices and tablets, which presents itself as a ripe opportunity for U.S. publishing companies to enter the market.

Pivoting towards Asia, Malaysia, Singapore and Vietnam are three high growth markets in the e-consumer growth sector. While print book growth may falter slightly in through 2019, Malaysia will realize an increase in the size of its e-consumer book revenue from $1 million to $6 million at a 35.9 percent CAGR.

Similarly, Singapore's market for electronic consumer books and educational e-books also shows high growth rates of nearly 43.6% CAGR through 2019, again principally driven by an increase in tablet penetration and high rates of smartphone use.[xx] Vietnam will remain a smaller and nascent market in the publishing context growing from a $1 million to $4 million market by 2019.[xxi] Although small markets, these countries will also gain from increased piracy protections that will protect U.S. companies intellectual property rights.
Overall, the digital side of M&E holds the highest potential across TPP markets and continued growth in consumer purchasing power, use of smartphones and tablets and robust Internet and broadband access will spur the growth trajectory in the new digital era for countries party to this historic trade agreement.

For more information on the TPP please visit: http://www.trade.gov/fta/tpp/

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